

Qualified Intermediary Audit Waiver Information and Instructions

This document contains information and instructions regarding the forms that must be used by Qualified Intermediaries (QI) to request waivers of the 2009 audit requirement as stipulated in Section 10 of the QI Agreement (Rev. Proc. 2000-12, Section 4). The provisions and requirements for these waivers are set forth in sections 10.01.4 and 10.01.5 of the Audit Guidance contained in Rev. Proc. 2002-55. In general, these sections allow for a waiver of the audit requirement, at the discretion of the IRS, for QIs meeting one of the following sets of criteria:

- 1) During the audit year for which the waiver is being requested, the QI received reportable amounts not exceeding \$1,000,000; or
- 2) During the audit year for which the waiver is being requested, the QI received reportable amounts exceeding \$1,000,000 but not exceeding \$4,000,000 and has been audited by an external auditor under the QI Agreement or Renewal for the immediately preceding audit year.

A QI that intends to request a waiver of the audit requirement for the 2009 audit year and meets the criteria under 1 above should complete and submit to the IRS the **Request for Waiver of the 2009 Tax Year Qualified Intermediary Audit Requirement (Reportable amounts not exceeding \$1,000,000)**. The form, with original signature, should be mailed to the address below and must be received by the IRS or postmarked no later than June 30, 2010. To ensure proper processing upon receipt by the IRS, "WAIVER #1" should be written on the envelope to the bottom right of the address.

Likewise, a QI that intends to request a waiver of the audit requirement for the 2009 audit year and meets the criteria under 2 above should complete, sign and submit to the IRS the **Request for Waiver of the 2009 Qualified Intermediary Audit Requirement (Reportable amounts exceeding \$1,000,000 but not exceeding \$4,000,000)**. The form, with original signature, should be mailed to the address below and must be received by the IRS or postmarked no later than June 30, 2010. To ensure proper processing upon receipt by the IRS, "WAIVER #2" should be written on the envelope to the bottom right of the address.

Send completed waiver forms to:
Internal Revenue Service
LMSB:F:QI 290 Broadway, 12th Floor
New York, NY 10007-1867 USA
Attention: Audit Waiver

Important Information Regarding Consolidated Audits

A QI that is related to a group of QIs for which the IRS has permitted a consolidated audit under Rev. Proc. 2002-55, AG 10.01.3 is not eligible for a waiver of the external audit requirement. Such a QI may request approval from the IRS to be excluded from the consolidated audit group and complete an audit separate from the consolidated audit. In this case, the QI may be eligible to use the modified audit report format. Information regarding consolidated audits and the modified audit report format can be found at www.irs.gov; search "QI".

Instructions for Certain Line Items

Request for Waiver of the 2009 Tax Year Qualified Intermediary Audit Requirement
(Reportable amounts not exceeding \$1,000,000)

Name: Enter the current name of the QI.

Name on QI Agreement: Enter the QI's name as shown on the QI Agreement, but only if that name is different than the current name of the QI.

Line 7: If there is an amount on this line, the IRS will take various factors into consideration to determine whether the amount of the unexplained variance is acceptable or not. An additional explanation may be provided on an attachment if desired.

Line 8: Enter the amounts actually withheld by the QI by reason of assuming primary withholding responsibility or having to impose withholding on an undocumented account.

Line 9: Enter the total amount claimed as withheld by other withholding agents, as shown on the QIs 2009 Form 1042, line 66. A copy of all 2009 Forms 1042-S issued to the QI that support the line 66 amount should be submitted with the waiver request. If the Forms 1042-S submitted do not fully support the line 66 amount, you may attach an explanatory statement.

Line 11: Include only those account holders who received reportable amounts during 2009.

Line 13: A QI that is related to a group of QIs for which the IRS has permitted a consolidated audit under Rev. Proc. 2002-55, AG 10.01.3 is not eligible for a waiver of the external audit requirement. Such a QI may request approval from the IRS to be excluded from the consolidated audit group and complete an audit separate from the consolidated audit. In this case, the QI may be eligible to use the modified audit report format. Information regarding consolidated audits and the modified audit report format will soon be available at www.irs.gov (search "QI").

Request for Waiver of the 2009 Tax Year Qualified Intermediary Audit Requirement (Reportable amounts exceeding \$1,000,000 but not exceeding \$4,000,000)

Name: Enter the current name of the QI.

Name on QI Agreement: Enter the QI's name as shown on the QI Agreement, but only if that name is different than the current name of the QI.

Line 1: Provide a copy of your form 1042 and the forms 1042-s filed with the return. Check line 13 to see if custodian forms 1042-s need to be provided also.

Line 2: In order to be eligible for a waiver of the 2009 audit requirement, a QI receiving reportable amounts exceeding \$1,000,000 but not exceeding \$4,000,000 must have completed and filed an acceptable external audit report with the IRS for the 2002 year in accordance with section 10 of the QI Agreement. A QI that has not met this requirement will not be granted an audit waiver for the 2009 year. However, such a QI may be eligible for a "modified" audit. Information regarding the modified audit report format will soon be available at www.IRS.gov (search "QI").

Lines 3, 15, 16, 20 and 21: Include only those accounts and account holders which received reportable amounts during 2009. **N.B.** For lines 15 & 16 column 3 should include amounts withheld by both the QI and/or its upstream custodian (i.e. the total of in Box 9 of all forms 1042-S issued by the QI.)

Line 11: If there is an amount on this line, the IRS will take various factors into consideration to determine whether the amount of the unexplained variance is acceptable or not. An additional explanation may be provided on an attachment if desired.

Lines 24a and 24b: These lines are designed to identify and explain any discrepancy between the number of account holders covered by the QI Agreement, as shown on Line 3, and the total documentation provided to the QI from such account holders, as shown on Line 23. In theory, if only one type of documentation is included on Line 23 for each account holder, Line 3 should equal Line 23. However, there may be instances where they do not equal each other. If there is a discrepancy, the QI should show the discrepancy on Line 24a and provide an explanation on Line 24b.

Line 27: A QI that is related to a group of QIs for which the IRS has permitted a consolidated audit under Rev. Proc. 2002-55, AG 10.01.3 is not eligible for a waiver of the external audit requirement. Such a QI may request approval from the IRS to be excluded from the consolidated audit group and complete an audit separate from the consolidated audit. In this case, the QI may be eligible to use the modified audit report format. Information regarding consolidated audits and the modified audit report format will soon be available at www.IRS.gov (search "QI").